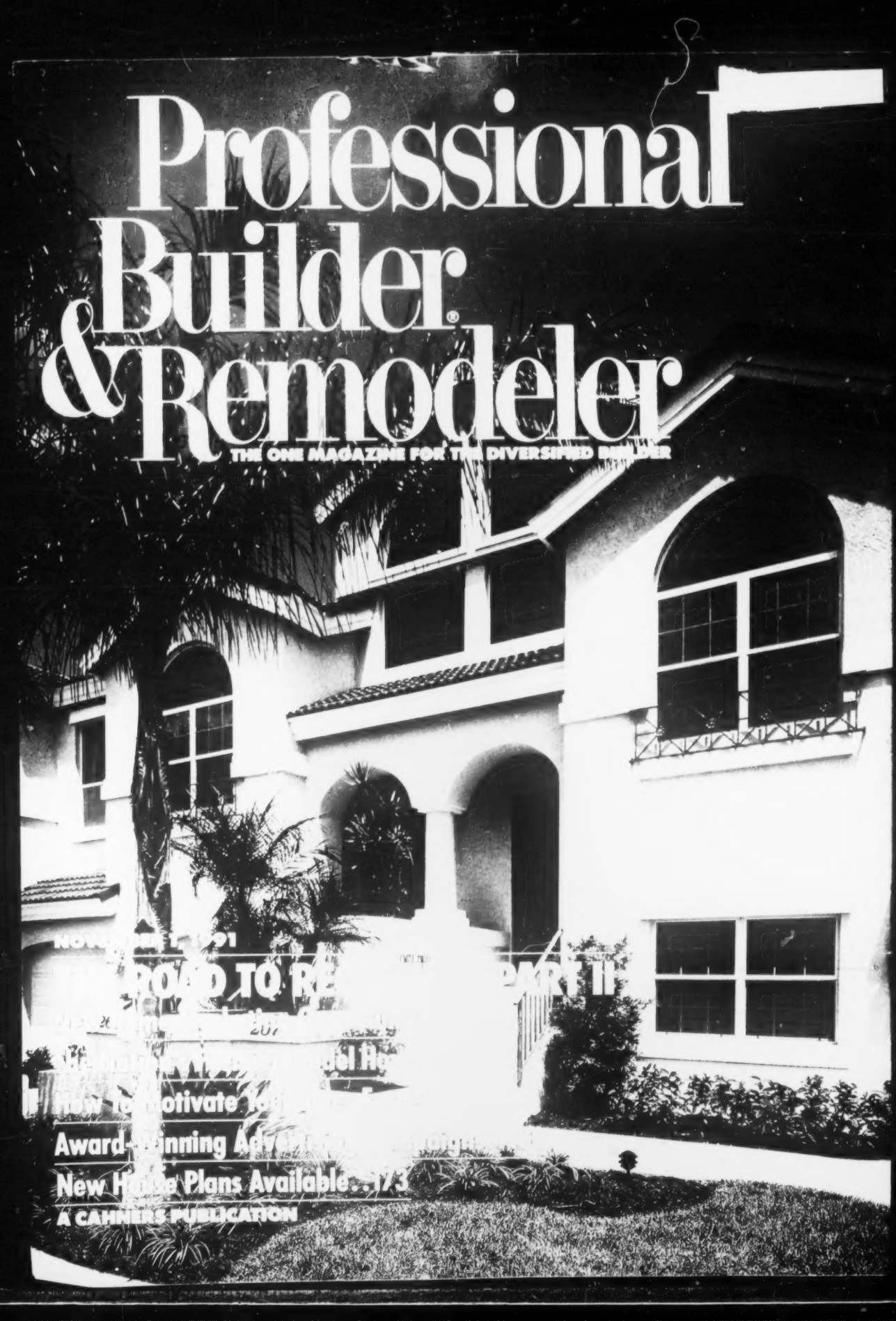
# Professional Builder & Remodeler

THE ONE MAGAZINE FOR THE DIVERSIFIED BUILDER



NOVEMBER 1991

ROAD TO RE... PART II

How to Motivate ...

Award-Winning Adv...

New House Plans Available ... 173

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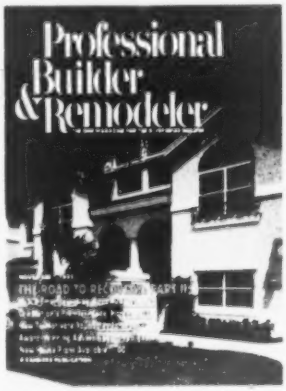


## On The Cover

■ Stanley Development Corp., Naples, Fla., created attractive fourplex units (128 units on 13.4 acres) for the Colonade at Park Shore, selected as one of *PB&R*'s "Best Model Homes" for 1991. It was designed by Quincy Johnson & Associates, Boca Raton, Fla. Interiors were merchandised by Design I of Los Angeles. Photography by Charles Wilkins. Story begins on page 76.

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ROAD TO RECOVERY

PART II: NEW HOME MARKETING

# Get More From Your Sales Force

Most builders act as their own sales managers, but spend very little time at it. More than a quarter rely on general real estate brokers to staff their sales operations, even though selling resale houses is completely different—and probably mutually exclusive—from selling new homes. Fewer than 25% provide regular sales training. Salespeople are often treated as second-class employees. The selling techniques they use are often throwbacks to the 1960s.

Is it any wonder so many builders are in trouble? It's time they recognize that, first and foremost, they are in the *home-selling* business.

Nothing happens without the sell.

By William H. Lurz, Senior Editor

HOWARD LEVITAN ROAD

# *'If IBM trained the way this industry does, it would have been out of business years ago'*

Walk a mile in my shoes. The editors of this magazine travel the country, shopping model homes. We look very much like house-hunters and we routinely experience everything in the housing sales managers' "Little Book Of Horrors":

- The empty sales office, complete with locked—or unlocked (which is worse?)—model homes. The sign saying, "Back at 3 p.m."
- The sales agent on the phone, pointing to the models, waving to be left alone.
- The complete lack of product knowledge: "Gee, I don't know. I've only been working here for a week."

"Buying a home is an emotional decision, and a scary one," says Atlanta-based people management consultant Martin Freedland. "When people shop for anything, they want to duck salespeople. The agent who asks, 'Can I help you?' invites the ducking response, 'No, I'm just looking.' The bigger the ticket, the more determined the ducking. And when the market is bad, a lot of our salespeople buy that line. The worse the market becomes, the more reluctant salespeople are to pursue buyers.

"The house-hunters become the master psychologists: they know how to get rid of our salespeople," Freedland adds.

"We have a major crisis in this industry," says Houston sales training consultant Tom Richey. "It is frontline sales incompetence. If IBM trained its salespeople the way the housing industry does, it would have been broke and out of business years ago."

While salespeople bemoan the presence of so many "just lookers" in the marketplace, Florida sales trainer Lou Principe says the way we treat people when they walk into model homes is the fatal error. "We treat them as traffic units or brochure counts, instead of real people who have taken time out of a busy schedule to come look at our product," says Principe.

"Instead of playing golf or staying home on your day off, do you drive to a supermarket, walk to the meat counter, look at the meat selection, then leave—without even a latent motivation to buy a piece of meat? Home buyers are the same. They come out because they need a house, or because they're somehow dissatisfied with the one they've got."

The lookers who walk into your sales office are buyers, says Principe. They've spent money as well as time to get there. Builders are just not converting them. "Many builders are still treating people the same way they did in the 1970s and '80s," he says. "But the market is far different today. I visited a project in Orlando and was told, 'I'm just a hostess, come back tomorrow.'

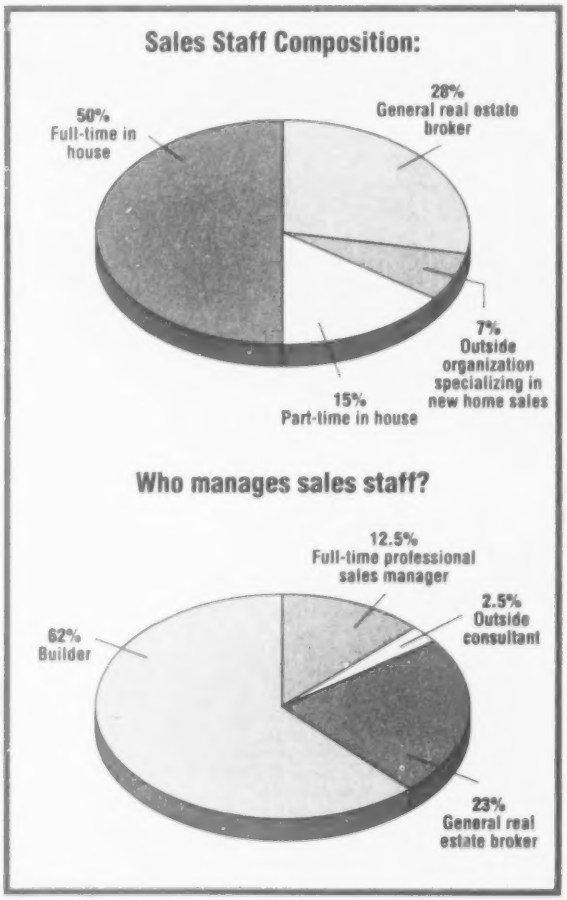
"That builder may have lost a $200,000 sale because a relocating client, who for two weeks planned his schedule to look for a house that day, was told by a $5-an-hour hostess to come back another time. How disrespectful can we be of our buyers' time? We are there to provide a service to the buyer, not the other way around."

If builders treat home-hunters badly, it should not be a surprise. They treat their salespeople even worse, often attaching little importance to the sales function, secure in the belief that their houses sell themselves.

We surveyed our readers to get a snapshot of the new housing industry's current approach to sales. We found that 15% of respondents have only part-time salespeople, and 28% turn the provision of salespeople over to a general real estate broker. Most builders (62%) said they manage their own sales force, while 23% said they also leave that function to a general real estate broker. Only 12.5% said they employ a full-time professional sales manager.

Training is at a very low ebb, with 76% of the sample saying they have no regular sales training program. The same percentage said they don't employ any special motivational perks for salespeople, such as cash bonuses, contests with prizes, trips to resorts, etc.

NAHB's Sales & Marketing Council, the Institute for Residential Marketing, and virtually every sales trainer active in the housing industry endorses "critical path" selling techniques of one form or another;



the step-by-step approach that usually begins with establishing both need and the ability to buy (qualification), then proceeds through signing of a sales contract to actual possession of a home (closing). Yet even among our respondents who said they *have* regular sales training, nearly 35% said they do *not* train in critical path selling techniques.

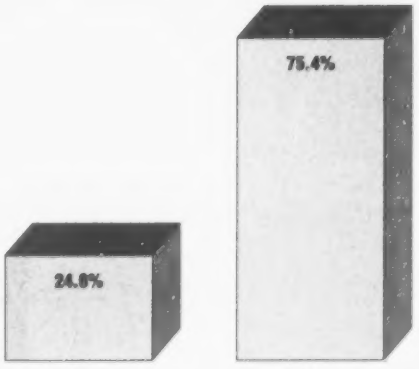
Would a good dose of sales professionalism cure the ills of the housing industry? "There is a lot more wrong with builders' marketing than with the market. It's not that bad," says Florida sales trainer Robert Schultz. "Woody Allen once said that half of life is just showing up. In many parts of the country, that's how new home sales were made in the 1980s. The market was so strong, all builders and salespeople had to do was show up."

Today's market is far different. Buyers are more sophisticated. With real estate appreciating at a much slower pace, and mortgage rates low and stable, the urgency that drove the 1980s market is gone. "We used to see buyers in the market for three to seven weeks, shopping five or six developments," says Schultz. "Now we see them take four to seven *months* to buy, and visit 12 to 15 places over and over again. We need to concentrate on sales management—the strategies, steps and systems used by salespeople. Just showing up won't cut it."

Sales professionals emphasize that size is no barrier to improving management of the sales process. Small builders who handle their own sales management—even close many of their own sales—can still benefit from reforming their approach. Step one, according to many, is to get the general brokerage agents out of model homes, or at least find a broker with a division specializing in new home sales.

"If you do $2 million a year in volume and are willing to budget 2% of that volume to the sales operation, you can afford an in-house salesperson," says Richey. "For $40,000, you can hire someone who will do a much better job than the succession of resale agents a general real estate broker is likely to rotate through your model. To abdicate that function to a broker is losing control where builders need it most. It's running your business by chance rather than plan."

**Do you employ special motivational perks for salespeople, such as cash bonuses, contests with prizes, trips to resorts, etc?**




What's so bad about real estate brokers? "I walked into a model home manned by a general brokerage agent and registered as an out-of-town transferee," says Atlanta-based consultant Pete Halter. "Rather than showing me the model and telling me the builder's story, she showed me five or six listings in her MLS book and suggested I drive by them and then give her a call at the broker's office."

Agents specializing in resale homes use entirely different selling techniques than new home sellers, says Halter. They bond with buyers, which is certainly part of the "relationship sell" favored by most sales trainers today, but that's where their common ground with new home sales ends. Builder salespeople need product knowledge and the ability to overcome objections, because they are tied to their product. They have to sell what the builder builds. Resale agents overcome objections by driving to the next listing.

"If the builder has a general brokerage agent in his models," says Halter, "he will be fortunate if that person doesn't personally *take* prospects the builder generates *away* from his models to show them resale houses, meanwhile leaving the models locked when the next prospect arrives."

The great strength of general real estate brokers is their nationwide networking of buyers. Virtually all builder sales professionals say broker co-op programs are vital in today's market, where so many builders depend on relocation buyers. But broker co-ops are better handled by in-house sales professionals who cultivate the whole brokerage community. "You can have

## *Buyers will respond to professionalism—but we're not giving it to them*

a broker co-op program without getting into a war of raising commissions," says Richey. "It's how you pay—not what you pay—that gets the brokers' attention. For instance, when certain conditions are met, you can pay part of the broker's commission up front—half at loan approval, half at closing."

Builders need to write a business plan that includes both a marketing plan and a sales plan, with appropriate budgets for recruiting, training, motivating and monitoring salespeople, says Richey. "There should be 25 items, at least, in a sales plan," says Richey. "It's Business Fundamentals 101."

Large builders often spend 50% of their time on "things"—the product and its construction—and 50% on people issues, says Richey. Small builders often tilt too far toward things. "But if you spend 75% of your time away from the people side, it will suffer," he says. "And sales is a people function."

Richey says he is finding that today's best salespeople come from outside the real estate industry. "Especially from such corporations as IBM and from consumer selling, where they are trained in the basic methodology of the relationship sell. Many of the people in the real estate business now are lazy and have poor selling technjques."

Builders are not only hiring the wrong people, but also motivating them poorly, with the wrong kinds of compensation plans, says Richey. "Salespeople are often treated as second-class employees, paid on straight commission, with no benefits," says Richey. "We need to pay a base salary, plus commission to get better, more professional people, then put perks on top—continuous service bonuses, etc." Richey wants sales compensation plans that parallel those often outlined for executive compensation among Giant builders (see July 1991 *PB&R*). "If a builder has one executive it should be a salesperson," Richey says.

The relationship sell starts not with "Can I help you?" but rather with an upbeat salutation, friendly—but probing—conversation, and the assumption by the sales agent of an advisory role in the search for a home. "We need to be housing doctors," says Lou Principe.

Most sales trainers suggest this "bonding" ought to take place before demonstration of the model. "We can make understanding the lifestyle and needs of the buyer a condition to viewing the models," says Principe. "The builder spends a lot of money to build and furnish models. Shoppers recognize this and will instinctively acknowledge that the builder has the right to know about them before they see the models."

Principe asks such questions as: "Tell me the kind of home you're looking for? I can direct you to the model you'll be most interested in."

Make visitors friends, Principe suggests: "IBM says 90% of its sales are made using relationship selling techniques. I can put this into practice and amaze builders with how much information I get within three minutes, without showing a model. People arrive at the models with a housing problem. Find out what it is."

This should come as no surprise to many small builders, who instinctively have used the relationship sell to close sales of their homes for years. When visitors walk in, they treat them as neighbors—because they may well be just that—entering their own home. Proprietary pride takes over: "Let me show you what's special about my houses."

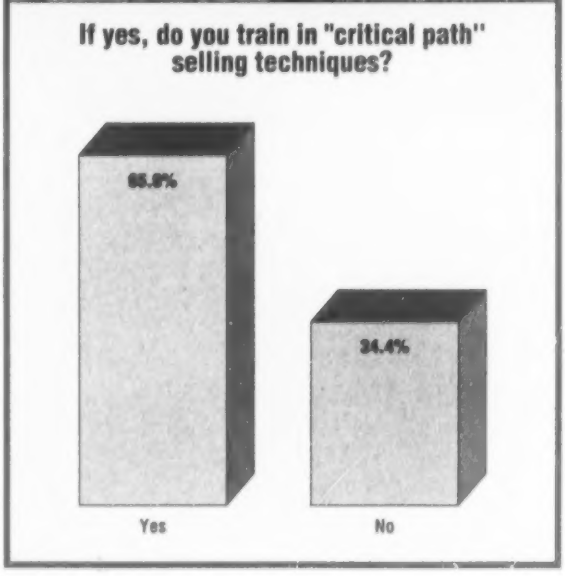
Suburban Cleveland builder Rick Puzzitiello, of Lakeland Homes, does it today. But he also lists houses in one subdivision with a general real estate broker. In another, he employs part-time hostesses to open the model when he can't be there.

He admits he uses general real estate brokers entirely to gain access to their networking of transferee buyers, not for their expertise in selling new homes.

Dallas builder Don Anderson of Darsco Inc. uses an on-site sales agent in one subdivision, and lists spec houses in another location—where he has no model home—with a Realtor. "We only have 35 lots there. It's the spec house inventory we most want to get into the MLS listings. That's where the Realtors look when they've got a prospect." Once again, it is prospecting, not sales expertise that Anderson seeks from a broker.

For such small builders, who may be hesitant to venture far from their Realtor contacts, sales professionals suggest searching for brokers with divisions specializing in new home sales and ongoing training in selling of new homes. They also suggest negotiating contracts specifying exactly what the builder expects from the broker; the hours the model will be open, the sales approaches to be used and that agents working in the model are prohibited from taking prospects elsewhere.

But that is often difficult to achieve, says California sales consultant Dave Stone. "And it's often unreal-




istic to expect that brokerage salespeople will benefit much from training. In those situations, the builder should concentrate on improving the quality of the collateral materials the salesperson uses to represent the property."

Silent sales tools, such as stickers identifying features and benefits can get the builder's message across to buyers without active help from salespeople. The builder's biography and record of expertise can be delivered in handouts. "Point-of-sale marketing needs to be very strong wherever the sales staff can't be relied on," says Stone. "I've even seen small builders use video cassettes presenting their construction quality—with segments taped at various stages, such as framing and finishing."

With so many homehunters shopping for months before buying, confusion is the biggest obstacle to closing the sale, says Stone. "People get 'house indigestion' when they see so much," he says. "Salespeople have to cut through the confusion to create an impression that fuses in the buyer's memory."

Some builders are now taking memory buttressing a step further. They create a memorable impression by doing things differently from all their competitors. Many advocate waiting until after bonding and demonstrating the model to register prospects, even though registration is vital to follow up—and constant follow up is the soul of relationship selling.

Zaring National Corp., one of Cincinnati's largest builders, disdains such industry icons as model home traps and sales offices in the garage. "Our houses usually have offices or dens that our sales associates use," says Allen Zaring. "We want our prospective buyers to walk in the front door of a house. And we like our associates to greet prospects at that front door and show them into the family room. Then they question the people about their needs. People are less intimidated. They don't like being herded around in model traps."

A house is really just another retail product in a crowded consumer marketplace, albeit a very high-ticket one. Examine how builders sell their product and one aspect certainly stands out. Other retailers keep their stores open much longer. Many builders have models—which really are "stores"—but open them only at 1 p.m. each day. In some markets, it is common practice to close models entirely on Friday.

"There's no question that *exposure* is critical," says Columbus, Ohio, niche builder Phil Fankhauser of The Epcon Group Inc. Fankhauser builds small communities of ranch condos aimed at moderate income empty-nesters. He recently opened a model at a project in suburban Columbus. Within three weeks, 47 of 48 units in the first phase were sold. "We believe in *being there* when people visit," says Fankhauser. "We are open seven days a week. If someone wants to visit after regular hours, we stay.

"Exposure establishes contact, but our buyers are very discretionary. They don't have to move at all," Fankhauser says. "We have to follow up with phone calls and letters. We maintain contact, and we are not shy about asking for the sale."

Fankhauser has weekly training sessions, which often include one-on-one role-playing, sometimes a written test. He also has his salespeople professionally shopped at least twice a year. And he hosts a dinner for all the salespeople once a month. "When times get tough, most salespeople in our business wither," Fankhauser charges. "Ours won't. They are excited and enthused. They work hard. They use good techniques. They have great product knowledge."

If every builder had such confidence in the people who sell his product, would the "bad housing markets" across this country disappear? □

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# INDICATORS

## Housing Market - Recovery Shows Signs Of Stalling

**But the interest rate cut should get things moving again and boost market psychology.**

Housing starts have risen steadily since March. Even so, there were clear signs by midsummer that the gains had leveled. August starts were at the seasonally adjusted annualized rate of 1,065,000 units—only 3% above the early-summer level.

The latest annualized rate, 5.8%, was still below the year-ago level. It represented a dramatic rebound of 25.7% from the horrendous January number. The gain has come from the single-family sector. Single-family starts in August were 6.8% higher than the August 1990 annualized rate; 37.7% above the dismal January low.

Year-to-date through August, total starts were down 20.9% from the totals recorded through the first eight months of 1990. The number of single-family homes started so far this year is 12.6% fewer than a year ago, while the number of multifamily units are off by 45.7%.

Regionally, the Northeast (-16.9%) and the Midwest (-10.7%) recorded declines through the first two-thirds of the year that were less severe than the national average. The South's decline has been on par with the national drop, while the Western region has fared the worst with 29.5% fewer housing units having been started through the first eight months of 1991. □

### Interest Rate Declines Will Help

The Federal Reserve Board's move in mid-September to lower both the discount and the Fed funds rate should prove to be "just what the doctor ordered" to get the stalled housing market recovery moving again.

Although the interest rate cut is marginal—and builders and prospective buyers are facing a multitude of problems beyond the simple cost of money—it should be just catalyst enough to get things moving again and to boost market psychology.

The lower discount and Fed funds rates will take a while to filter down. The "downpayment crunch" continues for prospective home buyers. The "credit crunch" also persists for home builders—but at least this one variable will contribute toward re-establishing some forward momentum to the market. □

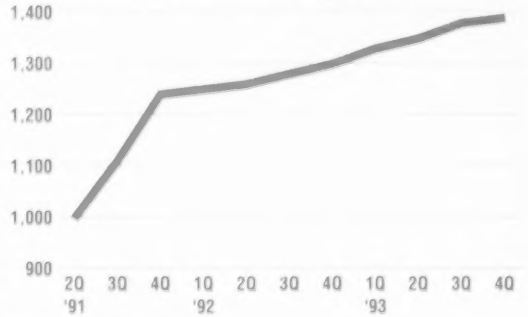
### Regional Market Conditions

(Year-To-Date Trends)

| | S-F Home Permit $ | Average S-F Permit Value | Remodeling Permit $ | Employment Change |
|---|---|---|---|---|
| Portland, Maine | -16.3% | $88,995 | -15.8% | -5.1% |
| Harrisburg, Pa. | -15.8% | $86,660 | +11.2% | -0.5% |
| Orlando | -25.0% | $91,140 | -9.2% | -0.4% |
| Knoxville | -20.3% | $70,370 | +2.8% | -1.5% |
| San Antonio | -0.1% | $62,491 | -10.4% | -0.3% |
| Milwaukee | -0.3% | $110,812 | -0.7% | +0.3% |
| Omaha | +5.8% | $73,282 | -7.0% | +4.9% |
| Salt Lake City | +24.3% | $90,551 | -21.9% | +3.3% |
| San Diego | -12.0% | $171,186 | -16.9% | -0.9% |

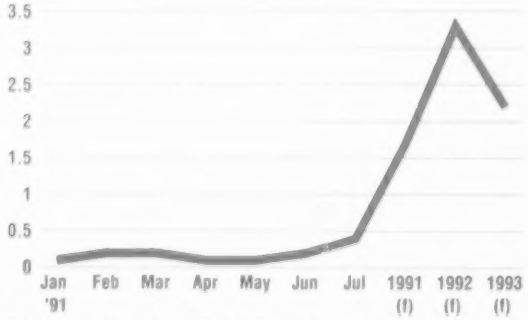
Sources: U.S. Departments of Commerce and Labor

### Housing Starts Forecast By Quarters



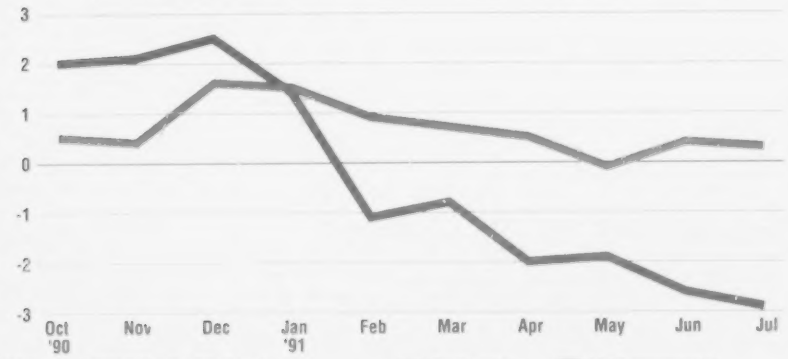

Data presented in thousands of units.
Forecast: Cahners Economics

### Construction Materials Price Trend




Data reflect over-the-year change in Producer Price Index.
Source: U.S. Department of Labor

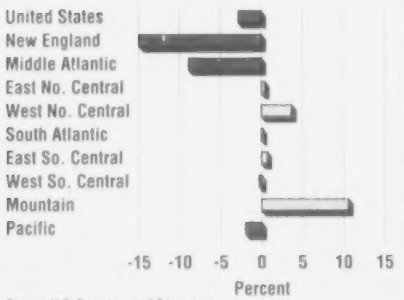
## Remodeling Permit Trends–Residential & Light Commercial




Data reflect % change in 12-month moving totals.
Source: U.S. Department of Commerce.

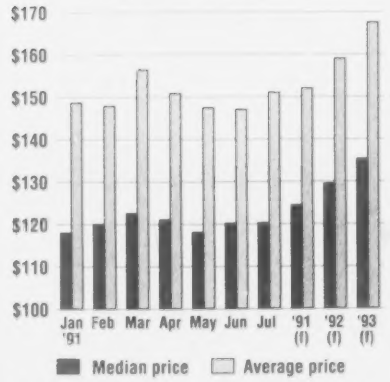
## Residential Remodeling Permit Trends

(Year-To-Date 1991 vs. 1990)



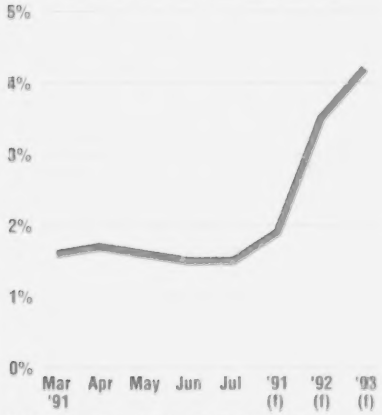

Source: U.S. Department of Commerce.

## Sales Prices Of New Single-Family Homes




Data in thousands of $.
Source: U.S. Department of Commerce. Forecast: Cahners Economics.

## Construction Labor Costs




Data reflect over-the-year change in average hourly earnings.
Source: U.S. Department of Labor. Forecast: Cahners Economics.

## Key Market Trends

| | Jul '91 | Nov '90 |
|---|---|---|
| Total housing starts* | 1,070,000 | 1,130,000 |
| New home sales* | 472,000 | 480,000 |
| Remodeling permit trend | +0.3% | +0.4% |
| Consumer confidence index** | 77.7 | 61.7 |
| Median new home price | $120,200 | $118,900 |
| Fixed-rate mortgages | 9.58% | 10.01% |
| Construction wage trend | +1.5% | +1.8% |

* Seasonally adjusted annual rate.
** 1985 = 100.

## Top 10 Areas For Remodeling Work

Through the first two-thirds of this year, the following areas were estimated to be the metropolitan markets with the highest dollar value of residential remodeling work:

1. Los Angeles
2. Washington, D.C.
3. San Francisco
4. New York
5. Philadelphia
6. Chicago
7. Detroit
8. Boston
9. Baltimore
10. Anaheim-Santa Ana

It's interesting to compare this list with the "Top 10" list for new residential construction activity so far this year. Only three areas—Los Angeles, Washington, and Chicago—appear on both lists. Many of the top remodeling markets this year have home-building markets that are nearly "dead-in-the-water" (see Boston, New York, and Philadelphia), but most have a large, aging stock of existing homes.

A few areas not on the "Top 10" list are nevertheless worthy of note because of their sharp gains in remodeling activity so far this year. They are cities that have enjoyed a surge in new construction activity during the last few years, activity which cooled within the last year. All have also enjoyed above-average employment and per capita income growth during the last half-decade or so. The "fast-charging" four: Honolulu (with remodeling permit values running 63.3% above the 1990 pace), Portland, Ore., (+54.7%), Jacksonville (+31.4%), and Seattle (+37.6%). □